Business Guide for Iraq

U.S. Department of Commerce

Revised November 17, 2003
This business guide is updated periodically to reflect the current situation in Irag.

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I. CURRENT RECONSTRUCTION EFFORTS

In September 2003, the governing Coalition Provisional Authority (CPA) in Iraq announced sweeping changes to foreign investment laws, permitting foreign investors from any country to wholly own and manage business entities in most Iraqi industry sectors. Under the Hussein regime, all foreign investment was restricted to Arab citizens resident in Arab countries.

On October 28, 2003, the Central Bank of Iraq authorized Iraq's private banks to process international payments, remittances, and foreign currency letters of credits. Effective January 1, 2004, Iraq will introduce a personal and corporate income tax limit of 15 percent. Iraq will also impose a new import customs duty, called a Reconstruction Levy, of five percent on most imports. Most economic sanctions against Iraq were lifted by the United Nations and the United States in May 2003.

In July 2003, the U.S. State Department lifted restrictions on the use of U.S. passports for travel to Iraq. However, the security situation remains serious, and the U.S. Government strongly warns U.S. citizens against travel to Iraq.

Soon after the removal of Hussein's regime, Coalition Forces established the CPA as a transitional administration to restore security in Iraq, create institutions for representative governance, and facilitate economic recovery. In July 2003, the CPA established the Governing Council of Iraq as the principal body of the interim administration. With broad membership from across Iraqi society, the Governing Council represents the interests of the Iraqi people and is determining the means to establish a representative government to replace the CPA. Its members named Iraqi Ministers to lead all Iraq Ministries, established budgets, and represent Iraq internationally.

The U.S. Government, including the U.S. Department of Commerce, is working with Coalition partners, international organizations, and private corporations to improve basic services and facilitate economic recovery through reconstruction contracts. U.S. Government and CPA contracts, as outlined in this guide, continue to be the leading business opportunities in Iraq.

II. RECONSTRUCTION CONTRACTS

Opportunities for U.S. firms to participate in the reconstruction of Iraq are mostly associated with rehabilitating major areas of the country's infrastructure. Projects are being carried out through CPA-issued contracts and U.S. Government reconstruction contracts. As CPA and U.S. Government contracts represent the primary conduits at this time for U.S. commercial activity in Iraq, companies are encouraged to visit the CPA, USAID, DOD, and awarded prime contractor websites for detailed information.

CPA Contracts

Current business opportunities provided through the CPA can be found at www.cpa-iraq.org/business_center.html.

The CPA recently established the "Iraq Infrastructure Reconstruction Office" (IIRO), which will be responsible for issuing contracts funded by the approved U.S. Government appropriation of over \$18.6 billion for Iraq reconstruction. IIRO has a new website, at www.rebuilding-iraq.net, where the tenders will be posted beginning in late November 2003.

U.S. Government Contracts

The primary U.S. Government contracting agencies are the U.S. Agency for International Development (USAID) and the U.S. Department of Defense (DOD). U.S. Government Requests for Proposals (RFPs) and tenders are located at www.usaid.gov/iraq/activities.html for USAID contracts, and www.hg.usace.army.mil/cepa/iraq/contracts.htm for DOD contracts.

The best way to ensure consideration as subcontractors or suppliers on reconstruction contracts is to directly contact the prime contractors, who are entirely responsible for choosing their own business partners.

A listing of all U.S. Government and selected CPA contracts and RFPs follows this guide in an annex. A listing of all U.S. Government contracts, and contact information of the prime contractors and known subcontractors, is also located at the U.S. Department of Commerce Iraq reconstruction website:

www.export.gov/iraq. Bechtel, the largest USAID Iraq reconstruction prime contractor responsible for capital construction, maintains information on their activities at www.bechtel.com/iraq.htm. Additional contact information for U.S. Government agencies and the CPA is provided at the end of this guide.

III. COMMERCIAL ENVIRONMENT

The Iraqi legal system and regulatory practices as well as infrastructure inadequacies and the unstable security situation pose numerous obstacles to doing business in Iraq. (The legal structure, as it existed at the end of the Hussein regime, is described in detail in the Commerce Department's "Overview of Commercial Law in Iraq", available at www.export.gov/iraq.)

The section below outlines the commercial environment as it currently stands. All referenced CPA Orders can be found at www.cpa-iraq.org.

Security

The security situation in Iraq is serious. Theft and violent crime persist in Iraq, and the potential for attacks against U.S. citizens and facilities remains high. Roads and other public areas can be dangerous for conspicuous foreign travelers. Law enforcement is limited, although Iraqi police units continue to emerge under the supervision of Coalition Forces. The U.S. Department of State provides up-to-date travel warnings for countries throughout the world, and U.S. companies are advised to carefully assess the situation in Iraq. Please see Section IV below on travel warning and passports.

Investment

Until recently, foreign investment in Iraq was restricted by statute to resident citizens of Arab countries. CPA Order #39, issued and effective on September 19, 2003, has significantly altered the international business environment in Iraq by permitting 100 percent foreign ownership and management of Iraqi business entities except in natural resources sectors, including oil, and with respect to banks and insurance companies. The Order also provides for equal treatment of foreign investors, foreign trade offices and branch registration, methods of investment, and dispute settlement.

The Order introduces new regulations for foreign investors involved in retail sales, including the requirement for a \$100,000 deposit in an Iraqi bank for the duration of the retail activity.

CPA Order #39 also permits foreign investors to hold long-term leases of real property for up to 40 years, but not ownership. Other property issues are addressed through CPA Orders #4, 6, and 9 on the "Management of Property and Assets of the Iraqi Baath Party", "Eviction of Persons Illegally Occupying Public Buildings", and the "Management and Use of Iraqi Public Property", respectively.

Ongoing Economic Reform

Under its USAID Economic Recovery and Reform contract, BearingPoint will assist in the development of a competitive private sector by addressing current lraq government policies, laws, regulations, and institutions that regulate trade, commerce, and investment. The contract includes support for the Central Bank as well as the Ministries of Finance, Trade, Commerce, and Industry. The size and capacity of the public sector, the relationships between key industries and government, and constraints to sector export growth may also be examined. Other activities that may be undertaken include credit, micro-finance, and small business loans.

As of October 15, 2003, new Iraqi dinars have been replacing both the "Saddam" dinars used in southern Iraq as well as the "Swiss" dinars used in the north. The exchange period will last three months and the dinar will float against the world's currencies

The CPA has released its fiscal 2003 budget as well as guidance for its 2004 budget, available at www.cpa-iraq.org/budget. CPA Order #18 details the operations of the now-functioning Iraqi Central Bank.

Trade

Under the Hussein regime, all trade with Iraq was subject to government licensing. Under CPA Order # 12, all tariffs, duties, fees, and similar charges for goods entering or leaving Iraq were suspended through December 31, 2003. (Manifests are still checked for contraband goods.) The same Order prohibits several exports from Iraq, including many foods products and machinery parts.

CPA Order #38, issued on September 19, 2003, addresses the trade regime post-December 31, 2003. Beginning on January 1, 2004, a Reconstruction Levy of five percent will be imposed on all goods imported into Iraq from all countries. Exemptions from this import duty include food, medicine, clothing, humanitarian assistance, and United Nations' Oil-For-Food program imports. The CPA, Coalition Forces, and reconstruction contractors are also exempt. Please see the Order for the full list of exemptions.

CPA Order #16 details current regulations with respect to Iraqi borders, points of entry, and current Iraqi passports. CPA Public Notice #3 authorizes Iraqis to establish direct relationships with international trading agencies.

Taxes

CPA Order #37, also issued on September 19, 2003, addresses taxation within Iraq. Income tax and property rental taxes are suspended until the end of 2003 along with all other taxes not continued by the Order. Taxes identified to continue in force include the hotel and restaurant tax, the property sales tax, and the car sale fee and petrol excise duties. The CPA, Coalition Forces, and reconstruction contractors are exempt from these taxes.

After January 1, 2004, individual and corporate income tax rates will be reimposed but at rates no higher than 15 percent. Please see Order #37 for a full discussion of the current taxes and their functions.

International Environment

United Nations Security Council Resolution 1500, passed August 14, 2003, provided the Iraqi people with an important political step toward an internationally recognized government by welcoming the establishment of the Iraqi Governing Council. The Resolution also provides for the UN Assistance Mission for Iraq to assist the Secretary-General in his duty to fulfill Resolution 1483.

A meeting of donors to raise funds for rebuilding Iraq took place in Madrid, Spain on October 23-24, 2003. The World Bank and the UN presented their needs-assessments to the conference, including the areas of health, education, agriculture, water supply and sanitation, economic management, and investment climate. World Bank cost estimates can be found at www.worldbank.org/iq. These assessments may guide the priorities and direction for Iraq reconstruction by donor countries.

It is estimated that nations and international financial institutions, including the United States, pledged over \$33 billion during the donors' conference. Donors can choose to channel their funding through a trust fund facility to be created and managed by the World Bank and the UN (The United States will continue to administer its contributions through its own programs.) Conference remarks and summaries can be found at www.comisionadoiraq.org/donors/index_ing.htm.

Iraq's large international debt may negatively affect future funding of reconstruction projects by international lenders. The Ministry of Finance and Banking website provides some additional information on this issue (www.cpa-iraq.org/ministries/finance.html).

Trade Finance

While the U.S. Export Import Bank (Ex-Im) is still closed for routine trade finance transactions with respect to Iraq, it will consider applications for exports to Iraq that involve buyers or letters of credit from banks located in third countries.

Ex-Im is also considering applications under its Working Capital Guarantee Program for subcontractors providing goods and services to Iraq under USAID contracts.

The Trade Bank of Iraq (TBI) is being established as a separate Iraqi government entity and export credit bank to facilitate the importation and exportation of goods and services to and from Iraq. The TBI will provide expertise and a point of contact within Iraq to bolster confidence between trading partners that funds will be received in exchange for goods delivered. The TBI will work with Iraqi commercial banks and the Operating Consortium, led by J.P. Morgan Chase & Company with the participation of 15 countries.

TBI will also cooperate with other export credit banks, such as Ex-Im and the Export Credits Guarantee Department of the United Kingdom. Ex-Im proposes to create a \$500 million facility that would provide short-term export insurance for TBI to cover imports from U.S. suppliers. The TBI is discussed in detail in CPA Order #20.

Banking

The financial and banking infrastructure of Iraq is not yet functioning normally, although bank branches have reopened for business and limited transactions are taking place. Some banks have opened as a result of USAID Rapid Response grants, primarily as savings institutions.

On October 28, 2003, the Central Bank of Iraq authorized Iraq's private banks to process international payments, remittances, and foreign currency letters of credits. A list of participating Iraqi banks, with points of contact, is available from the CPA website under Economy, Privatization of Banks. The Central Bank also announced that foreign banks will be licensed soon to operate over the course of the next five years.

CPA issued a Request For Information (RFI) related to the management of Iraq's private commercial banks, Rafidain Bank and Rasheed Bank.

Insurance

Currently, many companies will not insure business activities in Iraq. When it is offered, premiums can be very high. The Overseas Private Investment Corporation (OPIC) is exploring the provision of political risk and expropriation coverage to exporters and contractors participating in Iraqi reconstruction.

Intellectual Property Rights

The United States and Iraq currently provide access to each other's patent and trademark laws and application procedures under the terms of the Paris Convention for the Protection of Industrial Property. However, U.S. copyright owners have no access to Iraqi copyright protection, as the United States and Iraq are not members of any of the same copyright treaties.

Physical Infrastructure

Iraq's aging infrastructure constitutes a major barrier to normal business activity. The availability of electricity and water is improving but remains unreliable.

The international airports in Baghdad and Basra remain closed to commercial passenger traffic. Baghdad International Airport brought its power generating station online, reducing its dependence on the public grid.

The seaport of Umm Qasr is open to commercial traffic, but priority is given to humanitarian assistance shipments. The first container vessel arrived on June 26th and began unloading with the assistance of vessel cranes. Ocean going vessels are able to unload at only one dock. While security inside the port is improving, trespassers are still a concern. Vessel operators must file a cargo manifest with the Iraqi customs office at least 48 hours prior to the vessel's arrival. Customs officials will board the vessel upon arrival and check for non-manifested cargo and contraband. The Aqaba, Jordan port and Kuwaiti and Turkish ports are being used to bring products into Iraq.

The majority of Baghdad now has local telephone service. Satellite connections continue to be the primary international telecommunications links. Internet service is increasingly available at Internet cafes and hotels. The CPA awarded three regional mobile telecommunications licenses on October 6, 2003.

Hotels and restaurants have largely resumed normal operations. Most Baghdad hotels operate on a cash-only basis at about \$50-80 per night. Hotels in the northern cities of Kirkuk, Sulaimaniya and Erbil charge about \$40 a night.

Business Centers & Events

The Iraqi Business Center (www.iraqibusinesscenter.org) is an Iraqi Ministry of Trade office designed to assist Iraqi businesspersons enter the new local and international business environment. Its office is located in the Convention Center. Business centers are also operating in Kirkuk (kirkuk-business-center.org/) and Basra.

The U.S. Department of Commerce has officially certified Outreach 2004, a privately organized exhibition in Amman, Jordan focusing on Iraq reconstruction. The dates are January 11-14, 2004. More information can be found at www.kallman.com/outreach/.

IV. TRAVEL WARNING AND VALIDITY OF U.S. PASSPORTS FOR TRAVEL

This Travel Warning (dated October 31, 2003) provides updated information on the security situation in Iraq and advises Americans of the reduced staffing by international organizations in Baghdad as a result of increased attacks and bombings, and of a threat to civil aviation. The security threat to all American citizens in Iraq remains high.

The Department of State continues to strongly warn U.S. citizens against travel to Iraq. Remnants of the former Baath regime, transnational terrorists, and criminal elements remain active. There have been increased attacks in Baghdad, including at hotels, the UN headquarters, the International Committee of the Red Cross, and several foreign missions. These attacks have resulted in deaths and injuries of American citizens. There is credible information that terrorists have targeted civil aviation in Iraq. In addition, there have been planned and random killings, as well as extortions and kidnappings. Coalition led military operations continue, and there are daily attacks against Coalition forces throughout the country. Attacks against coalition forces as well as civilian targets occur throughout the day, but travel at night is extremely dangerous. Hotels, restaurants and locations with expatriate staff are being targeted. The security environment in all of Iraq remains volatile and unpredictable. Although the restrictions on the use of U.S. passport travel to, in or through Iraq has been lifted, travel to Iraq remains extremely dangerous

All vehicular travel in Iraq is extremely dangerous, and there have been attacks on civilian as well as military convoys. Travel in or through Ramadi and Faluja is particularly dangerous. There has been an increase in the use of Improvised Explosive Devices (IED) and/or mines on roads, particularly in plastic bags, soda cans, and dead animals. Grenades and explosives have been thrown into vehicles from overpasses, particularly in crowded areas.

There is a U.S. consular officer in Baghdad who can provide limited emergency services to U.S. citizens in Iraq and is located at the Iraq Forum (Convention Center) across from the al-Rashid Hotel. The consular officer cannot provide visa services. American citizens who choose to visit or remain in Iraq despite the warning contained herein are urged to pay close attention to their personal security, should avoid rallies and demonstrations, and should inform the U.S. consular officer of their presence in Iraq.

American citizens may obtain the latest security information or other information about Iraq by phone:

1-914-360-1025, or by e-mail: payneba@orha.centcom.mil. Detailed security information is also available at www.centcom.mil and security.advisor@us.army.mil.

Updated information on travel and security in Iraq may be obtained from the Department of State by calling 1-888-407-4747 within the United States, or, from overseas, 1-317-472-2328. U.S. citizens who plan to travel to or remain in Iraq despite this Travel Warning should consult the Department of State's latest Consular Information sheets,

the current <u>Worldwide Caution</u> and <u>Middle East and North Africa Public Announcements</u>, which are available on the <u>Department's Internet site</u> at http://travel.state.gov.

V. SANCTIONS AND EXPORT CONTROLS

In May 2003, the UN Security Council and the United States lifted most economic sanctions against Iraq, permitting non-sensitive U.S. exports to Iraq.

The export or re-export to Iraq of any goods or technology subject to a license requirement under the U.S. Department of Commerce's Export Administration Regulations (EAR) will require specific authorization from the U.S. Treasury Department's Office of Foreign Assets Control (OFAC). To determine if goods or technology are subject to a license requirement under the EAR, contact the Commerce Department's Bureau of Industry and Security (BIS), Exporter Counseling Division: (202) 482-4811, or send an e- mail to www.doc.bis.gov/about/programoffices.htm.

If a determination is made that a proposed export or re-export requires specific OFAC authorization, exporters must contact OFAC for a license. See www.treas.gov/ofac or call 1-800-540-6322. To a void duplication, authorization from OFAC constitutes authorization under the EAR, and no separate BIS authorization is necessary.

OFAC enforces certain other restrictions on activities of U.S. persons, wherever located, involving transactions with Iraq, including dealing in certain Iraqi cultural properties or entering into transactions with certain Iraqi nationals on OFAC's list of Specially Designated Nationals (consult www.treas.gov/ofac).

For up-to-date information, check with:

The U.S. Department of Commerce, Bureau of Industry and Security, Export Counseling Division, Tel. (202) 482-4811, www.bis.doc.gov

The U.S. Department of Treasury, Office of Foreign Assets Control, Tel: 1-800-540-6322, www.treas.gov/offices/enforcement/ofac/

The U.S. Department of State, Bureau of International Organization Affairs, Office of Peacekeeping and Humanitarian Operations, www.state.gov/p/io/

The U.S. Department of State, Defense Trade Controls, www.pmdtc.org

The U.S. Department of State, Economics and Business Affairs, http://www.state.gov/e/eb/

VI. OVERVIEW OF KEY INDUSTRY SECTORS

Agriculture, petroleum, and infrastructure are the prime sectors that should provide a firm foundation for trade and investment in Iraq. The country's natural resources are diverse. Endowed with two major rivers, Iraq has fertile soil in much of the country. Iraq has a generally well-educated and well-trained population of over 24 million. Most notably, Iraq possesses 11 percent of the world's proven oil reserves, second only to Saudi Arabia. Due to Saddam Hussein's defiance of the international community, Iraq's economy has been largely isolated from the international market for the past decade with consequences in all sectors.

<u>Agriculture:</u> Iraq's agricultural sector was seriously damaged during the last two decades. The past regime enforced destructive production and price controls, and provided input subsidies. Private investment in this sector was virtually nonexistent. The combination of these factors left the Iraqi agricultural sector with little competitive ability while the provision of food subsidies eliminated incentive to grow domestic grain.

Agriculture is a mainstay of Iraq's non-oil economy. Wheat, barley, rice, and dates are the country's main crops and at one time there were relatively prosperous poultry and livestock industries. About one-fifth of Iraq's territory consists of farmland. About half of this total cultivated area is in the northeastern plains and mountain valleys, where sufficient rain falls to sustain agriculture. The remainder of the cultivated land is in the valleys of the Euphrates and Tigris rivers.

For the past 15 years, production has declined by an average of 1.1 percent per year. Iraq imports 57 percent of its annual food requirements. Consistent provision of inputs such as fertilizer, seed, and pesticide is necessary for agricultural production to recover and increase. After many years of neglect, the extensive irrigation infrastructure is in great need of repair. The availability and distribution of water is one of the country's most pressing needs. Overgrazing and desertification are additional concerns.

Currently, agriculture constitutes 29 percent of Iraq's GDP and 20 percent of employment. Total agricultural output for 2002 was \$1.6 billion. Immediate needs of the agricultural sector are the reconstruction of damaged facilities and irrigation systems, reestablishment of services and managerial capabilities, and establishing efficient distribution. In the long run, efforts should be concentrated on sector growth, food security, and increasing rural employment. Currently, the CPA, the U.S., and Australia are encouraging agricultural rehabilitation through local purchase programs.

The \$5 million contract for agricultural reconstruction and development announced on October 21, 2003, was awarded to Development Alternatives, Inc. (www.dai.com). The one-year program is referred to as the "Agriculture Reconstruction and Development Program for Iraq (ARDI)." The primary goals of this program are to support Iraqi initiatives to revitalize production, stimulate income and employment through agro enterprise and market development, rural financial services (rural micro finance organizations), and rehabilitation of natural resources. The first phase of the project will last three months and focus on the distribution of seed, fertilizer and equipment and other quick impact activities. The main agricultural sectors that DAI will focus on are: cereals, horticulture, livestock, dairy, and poultry. The program also concentrates on water resources development and soil reclamation, with an emphasis on restoration of the Iraqi marshlands in the south. The second phase will last eight months and focus on longer-term rehabilitation and sustainability. USAID will provide considerable technical assistance, financial services, and stimulate trade and investment in the agricultural sector.

<u>Oil:</u> The development of Iraq's vast oil reserves will spur the country's economic recovery and future growth. The oil sector dominates Iraq's economy, with oil exports historically accounting for about three-quarters of gross domestic product (GDP) and more than 90 percent of foreign exchange earnings. Iraq has an estimated 112 billion barrels of proved, probable, and possible oil reserves – the world's second largest after Saudi Arabia. Many petroleum specialists believe that Iraq's undiscovered resource potential could increase the country's holdings to up to 200 billion barrels.

The country's oldest producing oil field, Kirkuk, was brought into production in 1934. In the south, most existing reserves are held in super-giant and giant oil fields such as Majnoon, West Qurna, Zubair, and the Rumaila field complex. Current production in Iraq is around 2.185 million b/d. Most of the country's undiscovered oil resource base is likely located in the under-explored Western Desert as well as near existing fields along the Iraq-Iran border.

Iraq also has world-class natural gas reserves that are both associated with oil fields and also are held in separate accumulations. Iraq's natural gas reserves are pegged at 110 trillion cubic feet, but this estimate could grow much larger as more exploration occurs.

With the recent restoration of significant oil production volumes and the resumption of exports, Iraq has the potential to earn between \$10 billion and \$15 billion annually over the next several years. Reestablishment of Iraq's pre-Gulf War production capacity of 3.5 million b/d is an important economic development priority. In early November, oil production reached 2.2 million barrels per day according the Department of Defense. This exceeds the domestic need of 450,

000 over four times. Exports average 1.4 million barrels per day. Although Iraq was able to increase oil production in the 1990s, this was accomplished largely through the use of improvised maintenance techniques, scavenged spare parts, and the cannibalization of equipment, especially at the country's refineries. Iraq's upstream and downstream oil and gas infrastructure is outdated and requires a sizable investment in repair, rehabilitation, and upgrading. Iraq's oil export pipeline system and terminals also are in need of rehabilitation and modernization. Furthermore, a spate of sabotage and terrorist attacks on the country's oil infrastructure – particularly on vital domestic and export pipelines – has hindered recent efforts to sustain oil production and export levels. Iraq's refineries, which are essential to meeting domestic demand for gasoline and other products, are still operating at just a fraction of their installed capacity. In the refining sector, investment is needed in modern secondary units that can enable Iraq's refineries to more effectively process a greater volume of crude oil.

In addition to funds needed to rehabilitate existing oil infrastructure, large-scale investment is required to develop dozens of oil fields that have been identified and appraised, but are as yet undeveloped. The high quality reservoirs in these fields contain the majority of Iraq's existing oil reserve base. Development of these fields will be critical to maintaining the country's long-term export capability. Based on its existing reserves and undiscovered resources, Iraq has the potential to produce 6 million b/d, although this production level likely will not be achieved until after 2010. The Ministry of Oil has several goals to be accomplished within the next several years including management of the oil sector to meet international best practices and attracting substantial foreign direct investment for long term funding. The oil industries 70,000 workers will have to be reorganized and retrained to function efficiently.

The Army Corps of Engineers has been assigned by the Department of Defense to undertake the rehabilitation of Iraq's oil sector. To date, the Corps has contracted with Kellogg, Brown, and Root (KBR), Fluor Intercontinental, Washington Group International, and Perini Corporation. Their contracts include oil field repair, logistics support services, and oil well fire damage control. Several RFPs and requests for quotes were released in August and September 2003.

<u>Airports/International Travel:</u> Iraq has approximately 108 airports and airfields throughout the country. International airports exist in Baghdad and Basra while major domestic airports exist in Mosul, Kirkuk, and Irbil. Baghdad International Airport (BIA) and Al Basra International Airport (BSR) are currently undergoing reconstruction efforts that are expected to be completed by the end of 2003. The Mosul airport, however, faces significant obstacles such as a lack of fundamental infrastructure and expansion constraints due to surrounding development. Currently, BIA has two runways and three terminals, while the BSR and Mosul airports have a single runway and a single terminal.

All airports in Iraq were severely outdated in technological terms. Systems had gone without maintenance for years and suffer from a lack of spare parts. International commercial airlines have not operated in Iraq for thirteen years. Iraqi Airlines operated domestically during the former regime, but its antiquated and partially destroyed fleet is no longer in service.

The CPA currently administers air traffic control and security procedures at the Baghdad and Basra airports. The responsibility of running the airports will eventually shift to the Ministry of Transport. As with many areas of Iraq, these airports suffered from insufficient availability of power, water, sewage and telecommunications. These problems are being addressed by Bechtel and include the installation of a number of communication systems necessary for safe and effective air traffic control of commercial air service. Bechtel maintains information on their airport activities at www.bechtel.com/iraq.htm.

The resumption of commercial service at BIA and BSR is on the horizon as a number of tasks have recently been finished. BIA has had Terminal C refurbished, constructed a parking lot, and installed security checkpoints. BSR has had its runways and airfields repainted, completed perimeter fencing, and refurbished various items within the terminal.

<u>Seaports:</u> While Iraq has six separate ports, its single deep-water port is at Umm Qasr. The new port section of Umm Qasr can now accommodate 12,5-meter-draft ships. Previously, only 4-meter-draft ships could enter the port due to heavy siltation before extensive dredging done under the Bechtel award. Two Iraqi dredging ships are being refurbished to eventually assume responsibility for this task. Besides siltation, there were a number of shipwrecks and pieces of debris in the waters of the port that have been recently removed. All 21 berths are now open and available.

Ferry service operates three times a week, moving people, vehicles, and cargo between Umm Qasr and Dubai, UAE.

Umm Qasr has over 175,000 square feet of covered warehouse and 800,000 square feet of storage location. An onsite grain storage facility, comprised of nearly fifty silos, is still undergoing repair. Both road and rail lines link these storage facilities with outside transportation paths. The grain facility is now capable of mechanically unloading up to 60,000 tons of grain at a time.

There is ample land around the current port site for expansion. In addition to general restoration, Umm Qasr is in need of improved cargo and container moving equipment, support vessels such as tug boats and response vehicles, and an administrative overhaul. Fencing is almost completely installed around the perimeter of the port. All power substations have been repaired and the port is entirely lit at night.

Iraq's other five ports are smaller in scale, narrowly specialized, and generally considered unworthy of rehabilitation at the expense of Umm Qasr. Three of these five ports are located on the Shatt al Arab waterway that poses severe river travel problems. The Shatt al Arab has low water levels, silting problems, security issues, and is intersected by a number of obstructive pontoon bridges that lay flat in the water.

Oil terminals are located at Al Baker and Khawr Al Amaya. The Ministry of Oil governs these two terminals, while the Ministry of Transport and Communications operates the ports. Bechtel maintains information on their port activities at www.bechtel.com/iraq.htm.

<u>Railway:</u> Iraq has approximately 1,525 miles of rail line, though about half of it is considered to be in poor condition. A lack of signals and poorly maintained tracks cause considerable delays as train travel speeds are significantly lowered.

Five main rail lines exist: 1) Baghdad to Basra and Umm Qasr; 2) Baghdad to Mosul and Syria; 3) Baghdad to Al Ramadi to Al Qaim; 4) Al Qaim to Akashat; and 5) Kirkuk to Baiji and Haditha. Along these lines are 107 stations. Many of these stations, as well as maintenance shops and offices, were looted. Service has resumed at a moderate level, with about ten trains running per day.

Iraq's rolling stock has deteriorated severely over the past few decades. A lack of maintenance has caused an accumulation of inoperable stock. Of the stock that does function, there are roughly 150 locomotives, 150 passenger cars, and 8,000 flatbeds and cargo cars, a small number of which transport oil.

The most important priority in refurbishing and improving the rail lines is establishing a reliable line from Umm Qasr to Shuiaba Junction (near Baghdad). This line will be used to transport large amounts of goods coming in from the port at Umm Qasr. The existing Umm Qasr-Baghdad line has not been upgraded since the 1950s and is dilapidated. A new, 72-kilometer, European-standard line is being constructed by Bechtel and Iraqi Republic Railways (IRR) to replace this one. This line will provide service of up to thirty trains a day and will offer affordable, high capacity transport to other parts of the country for goods arriving at the port of Umm Qasr. An additional sixteen kilometers of rail will be added to the already substantial rail network that exists within the port at Umm Qasr.

Track laying equipment owned by IRR is being repaired and used for the construction of the new line. New signals and modern equipment will dramatically reduce the occurrence of mishaps, accidents, and derailments. Training in modern rail operations will also be provided to IRR employees.

Bechtel maintains information on their rail activities at www.bechtel.com/iraq.htm.

Roads: Iraq has a fairly extensive network of roughly 24,000 miles of roads and highways, 85 percent of which are paved. Most of these roads were constructed in the 1970s and 1980s and have received little maintenance since. Heavy military use and overloaded trucks have compounded the problems, producing mediocre road conditions in many areas. Many miles of road will need to be repaired in the near term.

The main artery of the country is a six-lane expressway that connects the Jordanian border in the west with Baghdad, and then Baghdad with Basra in the south, near the port of Umm Qasr. North of Basra, on this expressway, is a missing section 94 miles long that is in need of completion. Also, a number of links to the expressway could be built from cities that currently have no direct access.

Primary roads link Baghdad to various cities throughout the country. These are often four-lane roads. A network of military roads facilitated troop movement along the borders for defense purposes. Beyond these roads exist smaller, secondary roads as well as village roads, many of which are unpaved. Much of these primary and secondary roads are in need of repair. It is believed many village or town roads are also in need of expansion.

Over 1,100 bridges exist in Iraq to provide crossings over the Tigris and Euphrates rivers and their tributaries. Many of these bridges, including the main ones, require rehabilitation. Three main bridges that are currently being focused on for repair are the Al Mat, Tikrit, and Khazir bridges. Also, a handful of bridges are temporary, pontoon bridges and need permanent replacement. Certain locations would benefit from the building of new bridges.

Road safety is not ideal given road conditions, missing signage, congested areas, and poor interchanges. Government road administration and maintenance is getting back on track, but will require a lot of work and funding. The State Commission for Roads and Bridges (SCRB), located within the Ministry of Housing and Construction (MOHC), is responsible for the expressway and all national roads and bridges not within municipalities. Bechtel maintains information on their road repair activities at www.bechtel.com/irag.htm.

<u>Public and Commercial Transport:</u> Iraq has a comparatively small private vehicle fleet given its population of 25 million. This will probably change as the lifting of economic sanctions permits more automobiles into the country. As a result of the small number of vehicles, buses are highly utilized. An extensive number of bus routes exist, ranging from intra-city to international. Taxi services are available. A number of private car owners will pick up passengers on the side to make extra income. Increasing traffic problems are expected as the number of cars in the country increases before road systems are expanded.

Trucks handle much of the freight shipping services in Iraq. Main routes are: 1) Umm Qasr to Baghdad; 2) Aqaba, Jordan to Baghdad; and 3) Tartous, Syria to Baghdad. These trucks were mostly laden one way during the Hussein regime as they delivered goods to Baghdad as part of the UN's Oil-For-Food program. The trucks used are often old and in fair to poor condition. Also, ownership of these trucks is currently at a variety of levels, many with at least partial government ownership. Private company monopolies also exist through widespread leasing of individual trucks. Government involvement will most likely decrease and privatization of the trucking industry will be encouraged.

Power: In early October 2003 Iraq's electricity production just exceeded demand for the first time in years. However, to satisfy Iraq's total demand for electricity, the country will need 50% more electricity generation by summer 2004. Post-war looting and sabotage have rendered seven of the country's major transmission lines useless. Decades of operation without regular maintenance and fuel shortages have also severely hampered dependable production. Given these needs for reconstruction, companies may have numerous and wide-ranging opportunities in the power sector.

The UN has several projects underway in Iraq, one of which is electricity rehabilitation. In the three northern governorates (Erbil, Dohuk, and Suleimaniya) the UN Development Program (UNDP – http://www.undp.org/) implemented the Electricity Network Rehabilitation Program (ENRP – http://www.enrp.undp.org/) to rehabilitate the electricity network across four main sectors: generation, transmission, substations, and distribution. The ENRP provides information on current vacancies, invitations for expression of interest, and procurement notices. Through ENRP, the UNDP has built up capacity to implement an operation of \$800 million. Their work has resulted in power stability for about 380 thousand households (2.7 million people). Thus far, ENRP has awarded 25 contracts worth \$238 million.

The Ministry of Electricity (MOE) has also made claims to begin projects in many sectors at the Iraq Donors Conference in Madrid. Among proposed projects are the construction of combined cycle power plants, transmission line additions,

completion of thermal power stations begun under FFO Program, and training for technicians. The Minister expressed his concerns for environmental sensitivity and security for workers in the electricity sector. The Coalition Provisional Authority (CPA) is transitioning securing forces to the MOE. Thus far, 20 electrical facilities have been transferred. Transition of authority will be complete by the end of November.

Electricity output exceeded the pre-conflict peak in early October at 4400 megawatts (MW) and is primarily derived from the Baiji and Mosul thermal plants and the Saddam hydroelectric dam on the Tigris. On October 5, power generation reached 4,417 MW or approximately 91 percent of the pre-war level. Electrical generation for Baghdad is 1.3 gigawatts. Commission of Electricity reports suspected power line sabotage has virtually isolated the southern power sector, limiting exportation of power to the rest of the country. However, many areas in the south are reported to be receiving 24-hour coverage. Major power infrastructure projects are incorporated within the potential scope of USAID's Capital Construction contract. Bechtel maintains information on their power activities at www.bechtel.com/iraq.htm. Information about work in the electricity sector, including support for CPA and UNDP efforts in Iraq is available at http://www.bechtel.com/PDF/Iraq_Power.pdf. The Commission of Electricity provides some additional information at http://www.cpa-iraq.org/ministries/electricity.html.

<u>Water:</u> The Ministry of Public Works has recently announced that water services in Iraq are very close to pre-war levels, but more work must be done to continue the improvement of those services. Over 90 percent of the urban population is thought to have access to water, but quantities per capita are insufficient. Moreover, in many neighborhoods, leaking pipes have contaminated potable water networks. Less than half the rural population has direct access to piped potable water. The water treatment system in Iraq consists of 218 traditional water treatment plants and 1,191 mobile compact water treatment plants that mainly serve rural areas. The Ministry has plans to ensure those 90% of Iraqi's receiving water currently receive clean water by 2004, and that 100% of Iraqis have access to clean water by 2005. The Ministry's plan calls for extending sewage treatment to 15 percent of the country by the end of 2004 and to 30 percent by the end of 2005. Only three percent of Iraq's citizens nationwide currently enjoy proper sewage facilities.

Only half of the country's sewage treatment plants are operational. In Baghdad, deteriorating sewage treatment installations are unable to handle increasing flows caused by population growth. Steps taken by the CPA and various non-government organizations (NGOs), in cooperation with the Baghdad city water authorities and the Army Corps of Engineers, averted an immediate water crisis in Baghdad. Baghdad is home to one

of the world's most intricate water distributions in the world, consisting of nine large dams, 18 major barrages, and 275 pump stations. The equipment used in these pumps stations is over 20 years and leaves the operational status somewhere near 60%.

Projects aimed at improving Iraq's irrigation systems, potable water, and wastewater treatment facilities are included within the potential scope of USAID's Capital Construction contract. Bechtel is currently working on a project to increase water capacity on the eastern side of Baghdad, increasing flow from 580 million liters per day to 780 million. Work has also begun in Basrah, Diwaniyah, and Hillah on sewage treatment plants. Bechtel maintains information on their water activities at www.bechtel.com/iraq.htm.

The Ministry has announced plans to hire 100,000 Iraqis in temporary positions to proceed with basic public works projects: cleaning the cities, refurbishing the gardens, and collecting garbage. The Ministry of Water Resources website provides additional information at www.cpa-iraq.org/ministries/water_resources.html.

Private humanitarian groups are also contributing to the treatment of damaged water facilities. Veterans for Peace, a nonprofit educational and humanitarian group managed to raise close to \$200,000 to repair six water treatment facilities, which serve a population of more than 85,000 people. The World Bank estimates a total cost of \$U.S 1.8 billion dollars in 2004 for improvements to water sanitation and solid waste, and \$U.S 4.9 billion in years 2005 through 2007.

<u>Telecommunications:</u> U.S. companies may find opportunities in resuscitating Iraq's deteriorated telecommunications sector. There are only three phones for every 100 people. The state owned Iraq Telecommunications and Posts Company is the sole provider of both landline telecom and postal services in Iraq. Given the current state of Iraq's telecommunications infrastructure, quickly establishing a functioning telecom system in Iraq is an economic development priority. The World Bank estimates that in 2004, telecomm rebuilding will need \$1.04 billion, and from 2005 through 2007, the telecomm sector will need \$2.3 billion. As a result of the October 24th Madrid conference, a goal of increased teledensity to 10% has been set for 2007. In order to reach this, private sector investment is not only encouraged; it is necessary. Several projects have been proposed, including an update of national fiber optic networks as well as rejuvenating and replacing current telecom switches.

CPA Order # 11 provides for the Iraqi Ministry of Transportation and Communications to be the licensing and regulatory body for all commercial telecommunication services in Iraq. The U.S. Trade Development Agency has

received \$5 million to assess the sector. They are also contemplating a telecommunications conference in November or December in Amman for U.S. companies.

Bechtel will repair Iraq's emergency communications infrastructure within the scope of their existing contract. Bechtel procured a satellite gateway from Globecomm Systems to restore approximately 50 percent of Baghdad's international phone service. They will repair and reconstitute the main north-south fiber optic backbone that will telephonically reconnect approximately 70 percent of Iraq. Bechtel and subcontractor Lucent will replace 12 switches in Baghdad, restoring service to 240,000 lines and bringing Baghdad's total number of lines back to pre-conflict levels. Bechtel maintains information on their telecommunications activities at www.bechtel.com/iraq.htm.

Under a DOD contract, MCI constructed a small mobile network in Baghdad for use by Coalition Forces, reconstruction contractors, and the CPA. Vodafone is also operating a small network near Basra to support British forces. The CPA recently announced the winners of three GSM regional mobile phone licenses. AsiaCell was awarded the north Iraq license, Orascom the center, while AtheerTel was awarded the license for the south.

There will also be opportunities for U.S. firms to establish Internet access in Iraq. Since the previous Iraqi regime considered the Internet a direct threat to the status quo, it was scarcely available in pre-war Iraq. The State Company for Internet Services has 60,000 subscribers, of which only half were operating before the war. Internet centers charged a \$55 annual membership fee and Iraqi companies had to pay between \$2,500 and \$8,000 per year to install the Internet in their offices. Foreign firms and embassies paid between \$3,000 and \$12,000 per year. Computers were also restricted, with only 15 percent of the population thought to be able to use a computer. Dramatically increasing the number of computers in Iraq and accelerating Internet access throughout the country will facilitate economic development in Iraq.

The Ministry of Telecommunications website provides additional information at http://www.cpa-iraq.org/ministries/transportation.html.

<u>Health:</u> The 1990's accelerated the decline of the Iraqi health care system, which only a decade earlier had been a model for the region. Most of the top medical professionals in Iraq have left the country, including both administrators and doctors. The primary issues facing the health sector are lack of standards, equipment, trained professionals, child malnutrition and related issues.

The health system that Saddam Hussein supported was very corrupt and the quality of healthcare varied according to ethnic region. Shiites in the south had higher infant death rates than Baghdad, and in Kirkuk, health standards were

manipulated. Any company wanting to sell drugs to the Ministry of Health had to pay a 10 percent service charge, which would eventually end up in a Baathist treasury account in Amman. In 2002 doctors were paid \$20 a month while pharmacists were making only \$1 a month.

Iraq tends to have a relatively high number of specialists but lacks an adequate number of primary health care workers. Most equipment is broken, outdated or inadequate. Services and quality of the health-care system vary by region, with better services available in and around Baghdad and the northern areas. There are approximately 240 hospitals, and 1,200 primary health care clinics operating. Since March 2003, 49 hospitals and clinics have been rehabilitated with another 131 planned. Iraq also has very few first-tier drugs available such as specialized and high-quality pharmaceuticals, contributing to the inadequacies of the system.

UNICEF has been active in delivering basic vaccines, and the Ministry of Health currently promotes a monthly "Vaccine Day," thus far delivering over 1.4 million doses of vaccinations since July of 2003 with another 30 million procured with the help of USAID and UNICEF. In the same year, almost one third of children in the south and central regions of Iraq suffer from malnutrition. In addition, women suffer from high rates of anemia (rates estimated to be as high as 60-70 percent), there are low breastfeeding levels, low birth weight, diarrhea, and acute respiratory infections that all contribute to high child mortality rates (125 per 1,000).

Prior to 2003, the highly centralized Iraqi health system tended to concentrate more on curing illnesses rather than the prevention of them. The Ministry of Health is placing decentralization of the management structure and empowerment as one of its highest priorities in the year to come. Currently, there is a great need for the development of a system of standards, and the need to license health care professionals to ensure that these standards are enforced. There is little existing health legislation in Iraq, and the legislation that does exist needs to be strengthened. Also, up-to-date training and education programs could be very beneficial, and health professionals in the fields of management, planning, and finance are necessary for the improvement of the Iraqi health sector.

Significant progress has been made since the end of the war. USAID has established a database for tracking and coordinating international medical donations and health activities across Iraq. The World Health Organization has been given \$10 million to strengthen the Iraqi health system. Over 8,000 Iraqi workers have begun training to screen and manage malnourished children. The CPA's budget from July 1 to December 31, 2003 is approximately \$210 million or \$20 per capita, which is significantly higher than during Hussein's regime where the per capita expenditures were a meager 40 to 50 cents per person. The first of 74 "health clinic in a box" kits containing primary medical equipment and supplies have been distributed by the Department of Health in Basrah.

Abt Associates (<u>www.abtassoc.com</u>) have been awarded a \$40 million contract to assist in stabilizing and strengthening the health system. Abt is responsible for helping reconstruct Iraq in almost all sectors of the health system. They will be involved by providing consulting services and assessment of everything from emergency relief, process improvement, planning, health economics, data collection and information systems; as well as working with international agencies such as UNICEF and the World Health Organization, in addition to the Ministry of Health.

<u>Other Sectors:</u> The non-oil industrial sector includes such industries as petrochemicals, phosphate, sulfur, fertilizers, minerals, cement, paper, consumer goods, light manufacturing, electronics, machinery and transport equipment, textiles, leather and shoes, and food processing and packaging. Most major industrial enterprises were state-owned. Details about the current state of these industries and state-owned enterprises will be available after in-country assessments are conducted. In addition, there is likely to be an increase in demand for health care equipment and services.

VII. CRITICAL CONTACTS FOR BUSINESS

Coalition Provisional Authority www.cpa-iraq.org/

Iraqi Business Centers
www.baghdadbusiness-center.org/
http://kirkuk-business-center.org/

U.S. Department of Commerce Iraq Reconstruction Task Force Business outreach hotline & website:

Tel: 1-866-352-4727 Fax: (202) 482-0980

E-mail: <u>IraqInfo@mail.doc.gov</u>

www.export.gov/iraq

U.S. Foreign Commercial Service American Embassy, Kuwait Tel: 965-539-5307/8, Ext. 2392

Fax: 965-538-0281

E-mail: Kuwait.City.Office.Box@mail.doc.gov

www.buyusa.gov/kuwait/en/

U.S. Foreign Commercial Service American Embassy, Amman, Jordan Tel: 962-6-592-0101, Ext. 2632

Fax: 962-6-592-0146

E-mail: ammanoffice.box@mail.doc.gov

www.buyusa.gov/jordan/en

U.S. Department of Commerce, Bureau of Industry and Security Export Counseling Division Tel. (202) 482-4811 www.bis.doc.gov

U.S. Agency for International Development www.usaid.gov/iraq/activities.html - for USAID Iraq opportunities

U.S. Army Corps of Engineers

Tel: 1-866-461-5171, the Defense Department Iraq contract hotline www.hq.usace.army.mil/cepa/iraq/contracts.htm - for USACE Iraq opportunities www.hq.usace.army.mil/cepa/iraq/faq.htm - for USACE Iraq contract FAQ

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U.S. Department of State
Office of Commercial and Business Affairs
www.state.gov/e/eb/cba/iraq

U.S. Department of State Travel Warning and Updated Security Information for Iraq travel.state.gov/iraq.html

U.S. Department of State International Police Recruiting Program www.state.gov/g/inl

U.S. Department of Treasury
Office of Foreign Assets Control
Tel: 1-800-540-6322
www.treas.gov/offices/enforcement/ofac/

U.S. Department of State, Defense Trade Controls www.pmdtc.org

U.S. Central Command www.centcom.mil/

United Nations Office of the Iraq Oil-for-Food Program www.un.org/Depts/oip/

Oil-for-Food Contract Inquiries
U.S. Department of State, U.S. Mission to the U.N.
Mr. George Southern
(202) 736-7937
southerngs@state.gov

United Nations Iraq Programs
www.devbusiness.com
www.iapso.org
www.iq.undp.org

VIII. Annex: U.S. Government and CPA Contracts

Sector	Title	Agency	Prime / RFP	Date
Administration				
	Personnel	USAID	International	February 7,
	Support		Resources	2003
			Group	
	Theater	USAID	Air Force	February 17,
	Logistical		Contract	2003
	Support		Augmentation	
	CENTCOM	DOD	Program	April 4, 2003 –
		מטט	Washington Group Intl.,	awarded
	Contingency Support		Fluor Intl.,	electricity
	Support		Perini Corp.	restoration
			Termi Corp.	contracts on
				October 5, 2003
Agriculture				2000012,2000
	Agriculture	USAID	Development	October 21,
	Reconstruction		Alternatives,	2003
	and		Inc. (DAI)	
	Development			
Banking				
	Iraqi	CPA	www.cpa-	Closed on
	Commercial		iraq.org/comme	August 30,
	Banks (Request		rcial/RFI_Rash	2003
	for		eedRafidain.ht	
	Information)	CDA	<u>ml</u>	D
	National Micro and Small	CPA	www.cpa-	Request for
			<u>iraq.org/busines</u>	Application closed on
	Enterprise Credit Program		<u>S</u>	September 15,
	Credit i logiani			2003
	Trade Bank of	CPA	J.P. Morgan	August 29,
	Iraq		Chase & Co.	2003
	1		with an	
			international	
			consortium	
Economic Recovery				
	Economic	USAID	BearingPoint,	July 25, 2003
	Recovery,		Inc.	
	Reform, and			

	Sustained Growth			
Education	Glown			
Zadadaon	Higher Education and Development	USAID	International consortia led by SUNY-Stony Brook, University of Hawaii, and DePaul University	October 3, 2003
	Primary and Secondary Education	USAID	Creative Assoc. Intl., Inc.	April 11, 2003
Health				
Military	Public Health	USAID	Abt Associates	April 30, 2003
	Ammunition Destruction	DOD	Parsons	August 22, 2003
	Iraqi Army Training	DOD	Vinnell Corporation	July 1, 2003
Miscellaneous Equipment	3		1	
	Numerous short term equipment contracts	CPA	www.cpa- iraq.org/busines s/index.html	Varies
Oil				
	Oil Well Fires	DOD	KBR	March 8, 2003
	Repair and Continuity Operations	DOD	www.fedbizopp s.gov - DACA63-03- R-0021	Not yet awarded; closed on August 14, 2003
Reconstruction				
	Capital Construction	USAID	Bechtel	April 17, 2003
	Iraq Reconstruction Phase II	USAID	http://www.usai d.gov/iraq/activ ities.html	Draft RFP released on September 15, 2003
Security				_
	International Police Program	U.S. State Department	CSC/DynCorp	April 18, 2003
Telecommunicati ons				
	Mobile Phone Licenses	СРА	AsiaCell, Orascom, and	October 6, 2003

			AtheerTel	
Transportation				
	Airport	USAID	SkyLink Air	May 5, 2003
	Administration		and Logistic	
			Support (USA)	
	Air Service	CPA	www.cpa-	Not yet
	Applications		iraq.org/ministr	awarded; closed
	for Baghdad		ies/transportatio	on July 8 and
	and Basra		<u>n.html</u>	August 2, 2003
				respectively
	Seaport	USAID	Stevedoring	March 24, 2003
	Services		Services of	
			America	